



United States
of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 110th CONGRESS, SECOND SESSION

Vol. 154

WASHINGTON, TUESDAY, SEPTEMBER 9, 2008

No. 142

House of Representatives

The House met at 10:30 a.m. and was called to order by the Speaker pro tempore (Mr. SERRANO).

DESIGNATION OF SPEAKER PRO TEMPORE

The SPEAKER pro tempore laid before the House the following communication from the Speaker:

WASHINGTON, DC,
September 9, 2008.

I hereby appoint the Honorable JOSÉ E. SERRANO to act as Speaker pro tempore on this day.

NANCY PELOSI,
Speaker of the House of Representatives.

MORNING-HOUR DEBATE

The SPEAKER pro tempore. Pursuant to the order of the House of January 4, 2007, the Chair will now recognize Members from lists submitted by the majority and minority leaders for morning-hour debate.

THE GOVERNMENT BAILS OUT FANNIE AND FREDDIE

The SPEAKER pro tempore. The Chair recognizes the gentleman from Florida (Mr. STEARNS) for 5 minutes.

Mr. STEARNS. Mr. Speaker, it's no secret that our country is facing economic uncertainty with a rapidly rising national debt and a lingering housing and mortgage crisis. Just weeks ago, our Congress orchestrated a sweeping effort to prop up government-sponsored enterprises—GSEs Fannie Mae and Freddie Mac—which own or insure half of our Nation's mortgages by exposing American taxpayers to vast financial risk. Now, just this past weekend, the Treasury has finalized a plan to officially bail out Fannie and Freddie, a step I had hoped our government would not be forced to take.

It used to be argued that simply chartering Freddie and Fannie didn't

mean that the Federal Government was on the hook if these mortgage giants collapsed, but now no one can make that case anymore. The recent and worrisome events occurring in the United States' housing market have revealed that the Federal Government bears significant risk in its chartering of Fannie Mae and Freddie Mac. Although these two GSEs are supposed to make the American dream come true, the reality is that they are contributing relatively little to the overall quality of the U.S. housing finance system.

At the same time, they have created exorbitant risks both for the taxpayers and for the entire economic system that cannot be adequately addressed by simple regulation alone. Over the years, Fannie and Freddie have been allowed to incur \$5.2 trillion in debt by borrowing \$1.5 trillion and by guaranteeing mortgage-backed securities worth almost \$4 trillion. Unfortunately, since January of this year, Fannie and Freddie's stock has also declined by about 90 percent. The collapse of these two, their common shares, coupled with the current credit, housing and mortgage crisis and illiquidity of our markets, has clearly demonstrated that the financial and regulatory structures we have been operating have failed us.

With the hasty passage of the Housing and Economic Recovery Act (H.R. 3221), which I voted against, Congress granted the Treasury a broad new authority to inject capital into the struggling mortgage giants if that's needed. To the surprise of few, with a collapse imminent, the Treasury decided this past weekend it would transfer the control of Fannie and Freddie and place it into conservatorship, which is akin to the filing of chapter 11 bankruptcy. The Treasury will now commence with buying mortgage-backed securities from banks in the open market at the expense of American taxpayers.

Although this move will probably lower interest rates on home loans by, maybe, about 1 percent, the bailout won't stabilize home prices or swiftly curb the rate of foreclosures, which are currently at an all-time high. Thus, the immediate effect of the Treasury bailout of Fannie and Freddie will serve to benefit, for the most part, international stock exchanges and large central banks in foreign countries. To be specific, one of the biggest, immediate beneficiaries of this bailout will be the central banks in Asia, such as the People's Bank of China, which has billions invested in Fannie Mae and Freddie Mac bonds.

Four years ago, Federal Reserve Board Chairman Alan Greenspan told the Senate Banking Committee: "The existence or even the perception of government backing undermines the effectiveness of market discipline," and he was right.

We must find an effective way to free our economy from the grips of this avoidable financial instability. In order to do so, Fannie and Freddie must be restructured and set on a path towards gradual privatization, for placing Fannie and Freddie into conservatorship is not a good long-term solution. Privatization is the most viable solution to mitigating the enormous risks posed by these out-of-control GSEs.

To be sure we never find ourselves in this situation again, Fannie and Freddie must be removed entirely from the government's account, be placed in direct competition with other financial institutions and be subjected to the effective discipline of the U.S. market. In this way, we can stabilize these important mortgage firms, restore confidence to investors and shareholders and relieve American taxpayers from the burden of another costly bailout.

Also, I call for an immediate investigation by this body into Freddie Mac's unreported financial results of almost \$9 billion. Let's ask former CEO

□ This symbol represents the time of day during the House proceedings, e.g., □ 1407 is 2:07 p.m.

Matter set in this typeface indicates words inserted or appended, rather than spoken, by a Member of the House on the floor.



Printed on recycled paper.

H7857